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The Conference Board

Worldbusiness Perspectives No. 75
October 1983

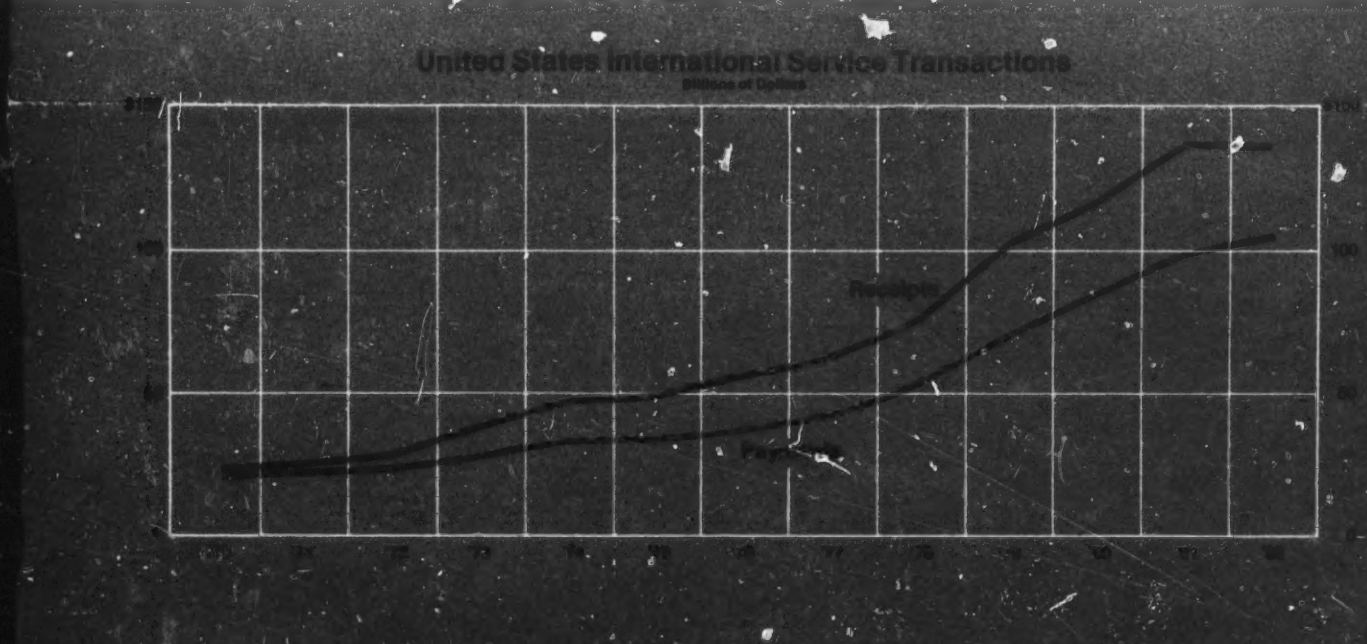
INTERNATIONAL TRADE IN SERVICES

A Growing Force in the World Economy

In taking a measure of the international position of the United States, both the media and public discussion generally tend to focus on this country's foreign trade and on its trade balance. Much less attention has been paid, at least until recently, to transactions in services. Yet, the domestic services sector and international trade in services are becoming progressively more important in the economies of both the United States and the other industrial countries.

In the United States, this sector now accounts for close to half of the gross national product, and for seven out of every ten nonfarm jobs. This year, *Fortune* included ten companies from its 1982 list of the 500 largest industrial companies—including RCA and Avco Corporation—in a newly compiled Service 500 Directory, on the grounds that their sales from manufacturing activities had slipped below 50 percent of total sales.

Of course, not all types of services are—or can be—traded internationally. But a recent analysis by the International Monetary Fund (IMF) has shown that the value of international service transactions more than doubled in the 1960's, and during the 1970's, when merchandise trade increased by 6 percent a year, grew by 17 percent annually. For 1980, the IMF puts international trade in services at an estimated $650 billion, as against global merchandise exports of $1,870 billion. Thus, services now account for about one quarter of exports of goods and services combined. For such countries as the United States and the United Kingdom, the proportion is considerably higher—roughly 35 to 40 percent of overall trade.



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Services in the U.S. International Accounts

The neglect of services in appraising the U.S. international position is somewhat understandable. Merchandise represents something hard and tangible, easily understood and counted, and moreover, is available on a month-to-month basis. Services, on the other hand, comprise a heterogeneous assortment of transactions that does not lend itself easily to straightforward analysis (see box); data are published only quarterly.

United States trade in services emerged in the mid-1970's as an important contributor to this country's balance of payments. At a time when our merchandise trade was characterized by almost continuous deficits, trade in services continued to show surpluses—rising from $14 billion in 1975 to $32 billion in 1979, and $39 billion in 1981. Services thus were an important element in the overall current-account surpluses registered in 1980 and 1981. In 1982, service receipts ($137 billion) and payments ($104 billion) accounted for 39 and 30 percent, respectively, of receipts and payments for goods and services combined.

International transactions in services comprise a great variety of activities and reflect many different types of economic behavior and economic forces. No single category can, therefore, explain movements in the service account as a whole. Yet, as the chart on page 3 indicates, that account is dominated by investment income and by travel and transportation expenditures. Net investment income is the largest single determinant of the U.S. service account; of the $33.2 billion surplus in 1982, $27.3 billion reflected net investment receipts. For further analysis, it makes sense to distinguish between income derived from direct investment and from financial assets, both private and official.

The United States has been in a net creditor position on *direct* investment throughout the post-World War II period, reflecting the worldwide expansion of U.S. multinational firms. U.S. foreign direct investment at the end of 1982 amounted to over $220 billion, accounting for 27 percent of total United States assets abroad. By contrast—and despite the rapid establishment of foreign-owned enterprises in this country—at the end of last year, foreign direct investment in the United States totaled only $100 billion, or 15 percent of total foreign assets in this country. Given this disparity, it is not surprising that income on direct investment has always been in excess of payments. In fact, the difference between the two—or net income on direct investment—rose by one half, to $25 billion, between 1977 and 1981.

Net United States income on *financial* (or portfolio) investment has also grown rapidly over the past five years or so. Both receipts and payments have at least tripled as both the stock of assets and liabilities and their respective rates of return have increased. In fact, many types of United States international financial transactions have raised both United States international assets and liabilities, and simply reflect the large role played by the dollar in global financial dealings and the position of this country as a "giver and taker" of funds in the world.

Services: Some Definitions

The service account in the balance of payments has been described as "a composite of many dissimilar types of transactions." Yet, these have a common denominator since they involve selling or buying part of the output of the United States and its trading partners, or providing a return on United States capital invested abroad in a previous period, or on foreign capital invested in this country.

The largest single category, *investment income*, represents payments and receipts of income on direct investments and other internationally held private and government assets, including bank and commercial loans. *Travel and transportation*, the second largest item, includes all expenditures connected with the international movement of people and goods, such as passenger fares and freight. It also includes expenditures on goods and services made by travelers outside their countries of residence.

Fees and royalties consist of payments by both firms and individuals for the use of technology, intangible property, and managerial services. *Military transfers* reflect provision of goods and services to foreign governments under United States military sales contracts. On the payments side, *defense expenditures* include goods and services purchased abroad by both the Department of Defense and United States military personnel. *Other services* show payments and receipts on private services such as construction, finance and insurance, as well as on government services not covered elsewhere (such as foreign expenditures by nonmilitary agencies and personnel).

Not included under services are private remittances, government grants, and other unilateral transfers—although these are often grouped with services under the heading of "invisibles." Merchandise trade and invisibles together constitute the so-called current-account transactions, the net balance on which is the broadest measure of the United States balance-of-payments position.

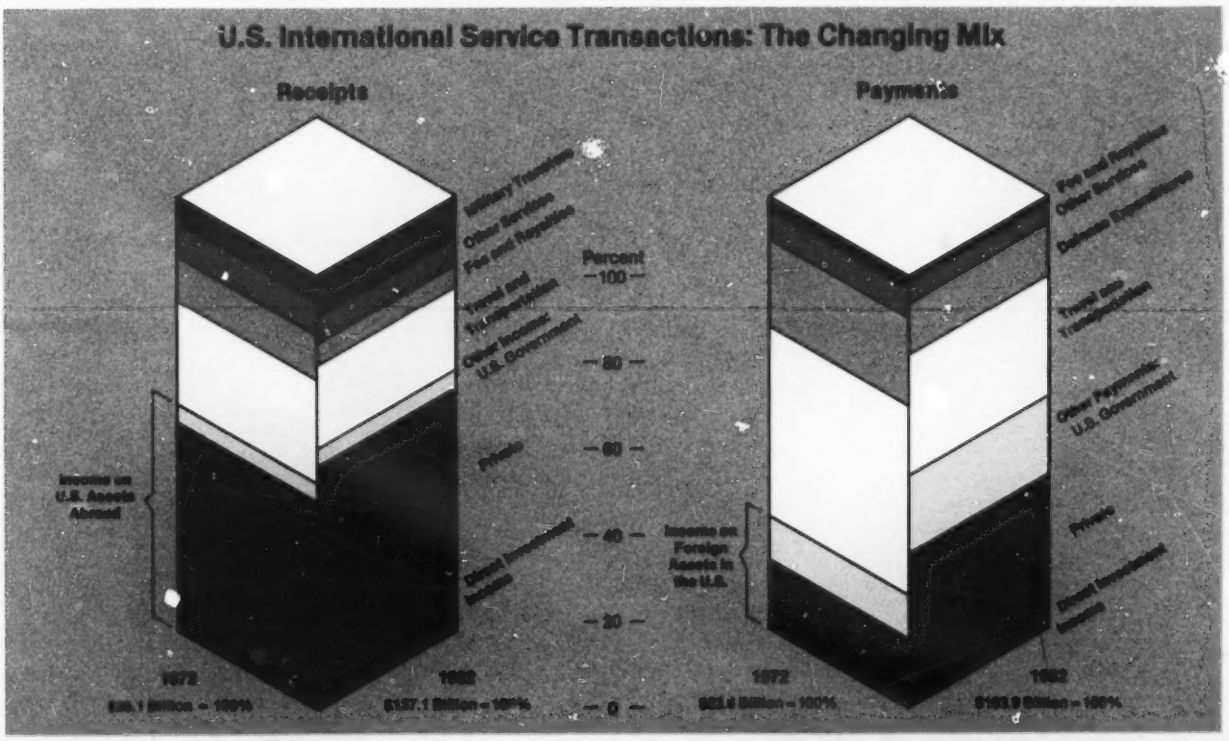
Services and the Global Balance of Payments

In an ideal world, both an individual country's international transactions, and the various countries' surpluses and deficits in their transactions with each other, ought to cancel out to zero. As it is, in both cases there is a statistical imbalance—formerly termed "errors and omissions" by the United States, but now called "statistical discrepancy" in this country and "statistical asymmetry" by the IMF—which has grown enormously in recent years. For the world as a whole, this summing of imbalances ranged between $4 and $16 billion annually in the second half of the 1970's; rose to $20 billion in 1980; more than doubled in 1981; and doubled once more to $89 billion last year.

To some extent, this growth reflects the more or less steady growth of world trade and world financial transactions, and the sheer increase in the numbers reported. But, more important, the asymmetry also reflects deficiencies in the ordinary balance-of-payments reporting of individual countries; incorrect allowance for transactions with nonreporting countries (i.e., nonmembers of the IMF) and international organizations; and clandestine or illegal transactions that escape the reporting net altogether. According to IMF data, the global asymmetry typically consists of a net surplus on merchandise trade and a much larger net deficit on services. The latter has become especially marked: In relation to the average flow of service receipts and payments, the global deficit has risen to 10 to 11 percent of the total.

While the IMF found that in the longer run "the invisibles deficit has been fairly stable in ratio terms," that is, as percent of gross flows, it also discovered that the largest single category within the asymmetry was "other investment income." This shortfall, the analysis concluded, was no doubt rooted in the greater ease of tabulating payments than receipts, since payers tend to be larger, fewer and more readily identifiable than the final recipients. The latter, the IMF says, "tend to be numerous, scattered, and often interested, for reasons relating to taxes or exchange controls, in avoiding regular channels." Another source of difficulty is that such earnings (recorded as payments to nonresidents) often are not repatriated, but are simply credited to an account in the country of payment. Because of these and related circumstances, a systematic underrecording of receipts from financial investment income occurs worldwide. As this type of transaction grows in value, a worsening of the global asymmetry on services—and hence on overall international transactions—is to be expected.

With the United States alone accounting for more than one-fifth of world service receipts, part of the



Source: Department of Commerce

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global discrepancy may well reflect a serious understatement of net U.S. service income. Receipts from transportation services, investment income, and fees—three areas in which the United States is strong—are especially difficult to capture accurately. The idea has, therefore, taken hold that the reported United States balance-of-payments deficits may well be somewhat overstated.

Barriers to Trade in Services

Both the growth of the service sector and, more important, the recent worldwide buildup of protectionist pressures have focused increased attention on international transactions in services. However, no effort has been made to date to provide a general framework of rules to govern this substantial volume of transactions: The General Agreement on Tariffs and Trade (GATT) covers only merchandise dealings. But the argument has been made that the principles which led to the adoption of a body or code or rules for merchandise trade at the end of World War II apply with equal force to trade in services. Or, as United States Special Trade Representative William Brock has put it: "It is insane to think that you can long continue to trade in goods if you have barriers to the services which facilitate the trade in these goods. The two are totally intertwined, and you can't separate them."

Little wonder, then, that services and their regulation occupied a prominent spot on the agenda of the GATT ministerial meeting in Geneva in November, 1982. At that meeting, the United States submitted a 13-category "Illustrative Summary of Impediments to Trade in Services" to serve as a basis for discussion. United States officials expressed their keen desire to begin international consideration of a framework within which subsequent negotiations could be conducted. The United States objective was—and is—not to seek uniformity of national rules governing the services industries, but rather to ensure that foreign services firms within each country are treated in the same way as national ones.

The meeting produced no commitment for direct action or even for a comprehensive GATT report on the issue, but merely encouraged individual countries to study the relevant problems on their own. Meanwhile, in April, 1983, the London-based private Trade Policy Research Centre established a high-powered committee of bankers, businesspeople and politicians to examine further the services sector and to frame proposals for international regulation. Headed by Ambassador Robert Strauss, the United States Trade Representative under the Carter Administration, the committee agreed on a study of internationally agreed-upon objectives, principles and rules with respect to trade in services, paying particular attention to the growing impact of technology on the structure and activities of service industries. This would include the proliferation of national restrictions on international information and data flows. The committee's report is expected to be presented at the next GATT ministerial meeting in 1984 or 1985.

In a separate action in the United States, leaders of 20 companies in telecommunications, construction and engineering, banking, insurance, and other services sectors, earlier this year established the Coalition of Service Industries (CSI). The group's aim is to strengthen the voice of service industries in the formulation of domestic and international economic policy.

This development is of special interest, since the growing service sector within the United States economy is expected to become a major force internationally—and one in which the United States has a comparative advantage. It has been estimated that international disparities in productivity growth have not been quite as unfavorable to the United States in service activities as in the traditional manufacturing sectors. The relative unit labor-cost position of the United States may be considerably stronger in services than in other activities.

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The Conference Board

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November 1983

BANKERS VIEW EXPORT TRADING COMPANIES

A Special Report

The U.S. banking community is responding with caution to legislation permitting it to engage in export trading operations. A joint survey by the Bank Administration Institute and The Conference Board drew responses from one bank that has already formed an export trading company (ETC) and 33 that are considering formation. The remaining 126 respondents reported that they had no plans to create a trading company.

The survey was conducted in August, 1983, by the Bank Administration Institute, using a mailed questionnaire to the nation's 1,000 largest banks. Respondents were asked if they were considering the formation of an ETC, the factors that were being considered in the evaluation of an ETC, and their feelings about the adequacy of the legislation.

Deciding Against An ETC

The majority of respondents—126 out of 160—report their banks are not considering forming an ETC. In a few instances, the decision was based upon studies by bank staff of the export potential of firms in the bank's service area. In most cases, however, the decision was reached on the basis of informal meetings and conversations.

Most of these banks concluded that the subject did not warrant further investigation, and in only a few instances was a formal decision made not to form an ETC. Many of the banks that chose not to pursue the question of ETC's indicated that the subject might be raised again at a later date, but their immediate decision was not to form an ETC.

No Perceived Need

"A limited customer base and prospects" was the conclusion of a midwestern bank that opted against an ETC, a conclusion that was shared by many others in the group deciding against this step. The perceived lack of demand for a bank-owned ETC—cited by one-third of the 126 respondents—was the factor cited most frequently.

Several banks report that the lack of exports from their service area make even the formation of an international department within the bank unnecessary; consequently, an ETC is certainly not required. In most cases, the relatively small number of firms in the bank's service area engaged in exporting appeared to be the major constraint limiting overseas sales. Some banks were able to point to a few firms in their customer base whose exports are sizable, but these firms, according to the banks, are large enough to finance their own export transactions. One bank, in fact, indicated that the major exporter in its area was so large that the potential financing through an ETC formed by the bank would not be sufficient to meet the exporter's needs.

The survey responses suggest that as these banks become more familiar with the operations of an ETC, they may seek partners in forming one. In some cases, the partners will be other banks that will be able to expand the volume of loanable funds. In other cases, banks will seek partners that have expertise in international trade, particularly barter trade.

A few banks indicated that the decision not to pursue the formation of an ETC resulted not so much from the small export potential of the service areas as from the operating strategy of the bank itself. "Our research indicates that an ETC should be undertaken only by the very largest international banks," was the conclusion of one respondent. This conclusion is very similar to the bank that believes that ETC's would "be limited to the larger banks who have or can acquire the expertise" needed to export. The respondent for a New Jersey bank stated simply that "we are a conservative bank," as its argument against formation of an ETC.

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The perception that ETC's are investment vehicles appropriate only for larger banks was evident in the responses of several banks that were members of large-scale holding companies. One bank reports it is "an affiliate of a $5-billion holding company with its principal subsidiary bank located in a major city, and it has an international department. If an ETC were to be considered, it would be a holding-company decision." Another bank indicated that it did not have the option of evaluating an ETC; its parent had "charged" it with activities only in its own community.

A variation of the theme that size is a prerequisite for ETC's was struck by another bank: "We do not have customers willing to use local financial institutions for this service. We are too close to Chicago."

Experience

Next to a perceived lack of need, inexperience in international trade is the factor cited most frequently by banks that have decided against formation of an ETC. In part, this lack of experience reflects the needs of customers who, by and large, sell only in domestic markets. The lack of experience, however, extends beyond an unfamiliarity with U.S. export transactions. Between 20 and 25 percent of total world trade in the early 1980's was in the form of barter and countertrade, according to the application by Citicorp to the Federal Reserve to form an ETC. Thus, U.S. firms selling abroad may be paid in goods or commodities which may or may not be saleable in the United States. As a result, trading companies must not only be aware of the problems associated with financing, transporting and selling U.S. products in foreign markets, but must also be adept at marketing goods produced by the buyer (or other firms in the country of the buyer) in third markets.

The background and experience needed for selling and trading in international markets is not normally developed internally by banks. Several respondents indicate that their participation in an ETC would depend upon their ability to identify individuals or firms with these skills that would be willing to participate in the ETC. Locating these skills, however, does not completely solve a bank's problems. Individuals with trading skills are accustomed to working with relatively little supervision; additionally, the salaries and bonuses earned are usually much higher than compensation paid bank employees of similar age and work experience. Thus, the integration of the personnel and activities of an ETC into the more traditional aspects of a bank's business can be a troublesome, although by no means an insurmountable, problem for a bank.

A few banks are tackling this problem by physically separating the offices of the ETC from the bank. The activities of the ETC are monitored by senior bank personnel but little day-to-day supervision is exerted. The compensation system, including bonuses, is different from that for other bank employees.

Low Priority

Roughly one out of every ten banks that reported they were not forming an ETC said that there were more important areas on which the bank should focus. "There seem to be too many other high-priority areas for profit improvement," said one banker. This was the same conclusion reached by a Nebraska colleague who wrote that "currently there are a number of more effective alternative investments."

In other cases, however, maintaining existing profits rather than searching for new areas of growth was the factor that relegated ETC's to a low level of priority. "The banking community and the economy have had enough problems for the past three years," wrote one banker who noted that the changes created by deregulation were important areas of concern for the bank. The 1982 Act is itself, of course, a type of deregulation, but export financing and servicing are often of secondary concern to banks that are encountering competition from nonbanking sources, and are devising new investment vehicles and strategies to meet this competition.

For some banks, ETC's might assume a higher priority if the concept were better understood. A Virginia bank has not given ETC's full consideration "because of not knowing much about the mechanics or profitability of such a venture." This is a sentiment echoed by a Pennsylvania bank that knows "practically nothing about an ETC. We have no idea what the advantages would be, or how we would operate."

The profit potential of an ETC has been particularly difficult for banks to determine. Under the 1982 legislation, banks can take title to the goods to be exported, but the difficulty of determining profit margins in foreign markets is a deterrent factor for one bank. Financing exports is an area in which many banks feel more comfortable, but a bank that simply wishes to finance exports does not need an ETC in order to do so. The market research, advertising and other services that a bank is permitted now to perform for exporters could generate sizable revenues; but, again, these are areas that banks have not traditionally engaged in, and an accurate calculation of potential profit is difficult.

For a few banks, an ETC has a low level of priority because they do not wish to expand their involvement in exports beyond current levels. Not many banks would agree with a Southeastern banker who believes that "The Act was not necessary, and should never have been enacted." But some banks do support the statement of a Michigan bank that has decided against

an ETC because: "We feel that we can do most things except take title to goods in our existing situation."

A few banks have opted against ETC's not because existing bank services are believed satisfactory but because services offered by nonfinancial corporations are deemed adequate. These banks say that they either cannot or do not wish to compete against existing trading companies or against companies that offer exporting services that banks are now permitted to provide. A Texas bank concludes that: "Aside from substantial start-up costs, an ETC would put us in the same business as some customers. That is not our purpose and, consequently, an ETC is not under consideration at this time."

The impact of an ETC upon customers is of concern to many banks. Some banks believe that exporting companies would be better served if the bank took a larger role in developing markets for the export-related services offered by its customers, rather than providing these services directly through a bank-owned ETC.

In addition to competing with customers, the question of servicing some customers but not others is also troublesome. This situation arises if a bank forms an ETC in partnership with serveral firms in the same industry. If all of the firms in the industry that are in the bank's service area are not members of the ETC, the bank may lose these firms as customers.

The provisions of the 1982 Act that permit banks to engage in areas of commerce formerly prohibited thus is forcing a reappraisal of customer relationships. The Act also is changing the competitive environment in which banks operate. The Act permits formation of ETC's not only by banks and other private-sector companies, but by public agencies as well. To date, participation by these groups have been limited. However, the possibility of a bank competing for export revenues with an ETC that includes a public agency is not relished by banks already alarmed by the new sources of competition that have emerged in the past several years.

Advantages of an ETC for Banks

The 1982 legislation is a year old and to date (November, 1983) 14 banks have filed applications with the Federal Reserve Board for permission to form an ETC. One of those banks responded to this survey. As noted earlier, 33 other banks report that they are currently determining whether or not to form an ETC, and that their decision would be made on the basis of the factors discussed below.

Typical of banks that are in the process of consideration is one that is analyzing the prospects of an ETC because of the "opportunity to offer a new service, complementary to what we already provide, and interest on the part of several corporate clients." The bank's final decision will be based on a determination of: "(1)

EXPORT TRADING COMPANIES

The Export Trading Company Act of 1982 is a "search and destroy" piece of legislation designed to reduce some of the obstacles that impede U.S. exports. The Act, which permits banks to form or become partners in export trading companies (ETC's), is intended to provide increased access to funds for U.S. firms selling in international markets. Indeed, banks can now take direct title to goods produced in the United States and sell these goods abroad, if they so wish. Banks can also provide legal assistance, market research, transportation (including trade documentation and freight forwarding), advertising and other services for exporters.

The Act also limits antitrust barriers that may apply when companies producing the same or similar products cooperate in a joint sales effort. The U.S. Department of Commerce is authorized by the Act to grant certificates that provide ETC's with limited antitrust exemption. An ETC that can demonstrate that its activities will not adversely affect prices or competition in the United States is, by virtue of the certificate, partially exempt from criminal and civil antitrust suits under federal and state law.

The Act is significant for banks for a number of reasons. The Act is explicit in giving banks permission to engage in areas of commerce that were formerly prohibited—or believed to be prohibited. Congressional supporters of the Act made it clear that they were doing more than simply drafting legislation that removed barriers to bank participation in exporting: The Act is actually intended to encourage banks to assume a larger role in working directly with exporters. The Federal Reserve Board, which initially had reservations concerning the advisability of encouraging banks to engage in commercial, nonbanking activities, has moderated its objections. The FRB has, in fact, provided considerable assistance to banks in interpreting the provisions of the Act.

The Act is also an important part of congressional and administrative efforts to increase exports. According to supporters of this legislation its chief advantages are: (1) reducing the expense and the time required to develop sales in foreign markets that discourage U.S., firms; (2) providing access to the funding and international contacts and know-how of banks will enable U.S. companies to compete more effectively abroad; and (3) permitting banks to share directly in the profits generated by expanded exports may make banks more aggressive in helping U.S. firms to export.

anticipated profitability; (2) availability of competent management; (3) sufficient interest on the part of our corporate clients to use the services of the trading company."

As indicated earlier, a large number of banks decided not to pursue consideration of an ETC because they did not detect a need on the part of their customers. Not surprisingly, those in the process of deciding if they should form an ETC are assessing their customers' need for export-related services. One bank, in fact, intitiated it's analysis when a customer extended an invitation to become a partner in an ETC. Another bank writes that "the interest expressed on the part of our good customers" was a major factor in prompting consideration of an ETC. A final decision will hinge upon "the commitment on the part of our customer(s) to *form an ETC with us"* (emphasis added). Several banks expressed fears that their customer base might be eroded if an ETC were not formed. For some banks, the competition to service and finance exports came directly from other banks in the community, but one bank cited the need for an ETC in order to "protect" customers from banks in money centers.

While most banks considering formation of an ETC point to the needs of their customers as a major motivating factor, there are questions about the profitability of ETC's. While none of the banks felt that an ETC would be an unprofitable undertaking, the fact that there are, as one bank put it, "no models with a financial track record as yet" is reason for caution. One bank officer cited three factors that will determine his bank's decision, and all three revolve mainly around financial considerations:

(1) the potential for developing additional business from the existing customer base;
(2) the capital requirements to set up the trading company; and
(3) the risk exposures against the benefits of this type of business.

Not every bank places such a heavy emphasis on financial considerations, but "projected rate of return," "impact on bank's profits," "profitability," "generation of fee income," and "capital requirements" figure importantly in virtually every bank's assessment of an ETC.

Another consideration is the availability of management and trading skills. One bank will buy rather than form an ETC in order to obtain these skills; another is seeking association with a group that can provide a sales force in countries targeted for exports. A West Coast bank that has a majority interest in a Dutch trading company and a New York-based coffee house will utilize this expertise in international trade markets if an ETC is formed.

One bank is wrestling with the question of whether its ETC should be formed around a specific industry and a specific geographic market. Other banks have indicated that while intitial operations might be confined to specific products and/or industries, the very nature of trading will take them into other areas. "Market-driven" or "product-driven" ETC's that begin operations with specific areas of activity say they expect (or at least do not rule out) the expansion of these areas as opportunities arise because of (1) identification of exporters in several industries in their service area, and (2) identification of sales potential in several different georgraphical areas. Additionally, U.S. exports, paid for in foreign currencies which may have limited acceptability in world money markets, may force traders to deal in countertrade involving commodities with which they have not had previous experience.

David Bauer

Note: Assistance in preparing this article was provided by James Greene, Executive Director of the International Business Management Program at The Conference Board; and Shashibir S. Sarang, Principal Research Manager, International Banking Group, Bank Administration Institute.

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FOREIGN CAPITAL EXPENDITURES BY US COMPANIES

Upturn in 1984

Plans for capital spending outside the United States by American manufacturing corporations appear to be on the upswing in 1984. More than one-third of the companies responding to the October, 1983, survey of The Conference Board plan to spend more abroad in 1984 than they did in 1983. At the same time, there was a significant drop in the percentage of companies planning to spend less, while the percentage of companies planning to spend about the same held steady.

This moderately good news must be tempered, however, by the fact that plans for 1983 represented a low point in the history of this survey. When last queried in April, 1983, only 21 percent of the companies replied that they expected to raise their 1983 capital spending over 1982. This percentage was the lowest in the whole 13-year record of this survey.

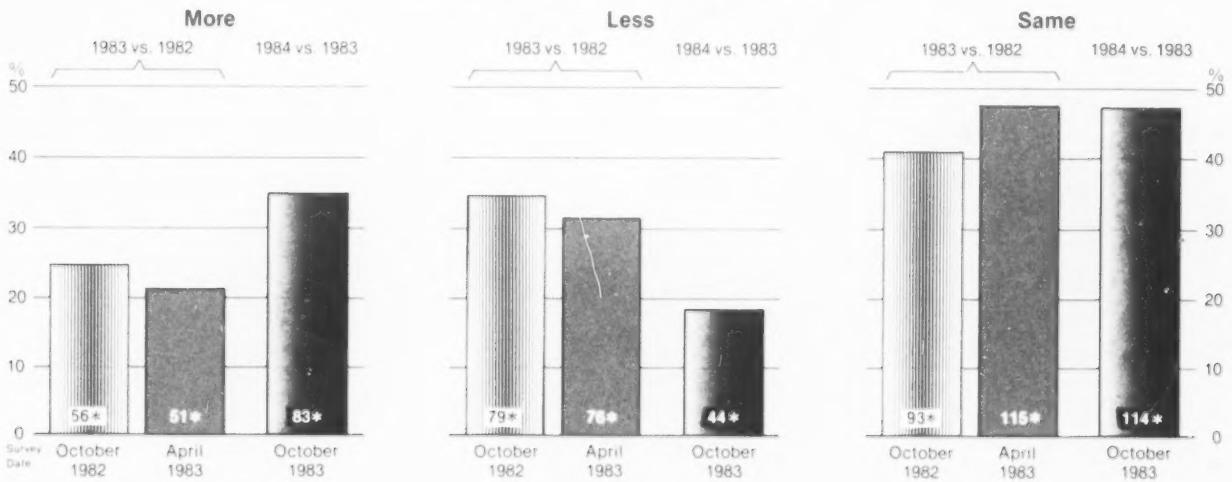
The survey conducted by The Conference Board is aimed only at comparing the direction of current investment intentions with past levels on a company-by-company basis, without seeking dollar magnitudes. In the June, 1983, survey of the Department of Commerce (the latest aimed at estimating capital spending in dollars), manufacturers (including petroleum companies) stated that they expected to spend about $38 billion in 1984, a 7 percent increase over the preceding year. This increase returns expenditures to only slightly above the 1982 level.

In "real terms," 1984 spending will actually be below the 1982 level. Worldwide inflation shows a sharp drop over the past three years, but even so, at approximately an annual rate of 13 percent globally in 1983, inflation has clearly outpaced the growth in capital expenditures.

J. Frank Gaston

Manufacturers' Plans for Plant and Equipment Expenditures Outside the United States

Number and Percent of Companies Planning to Spend:



*Number of companies

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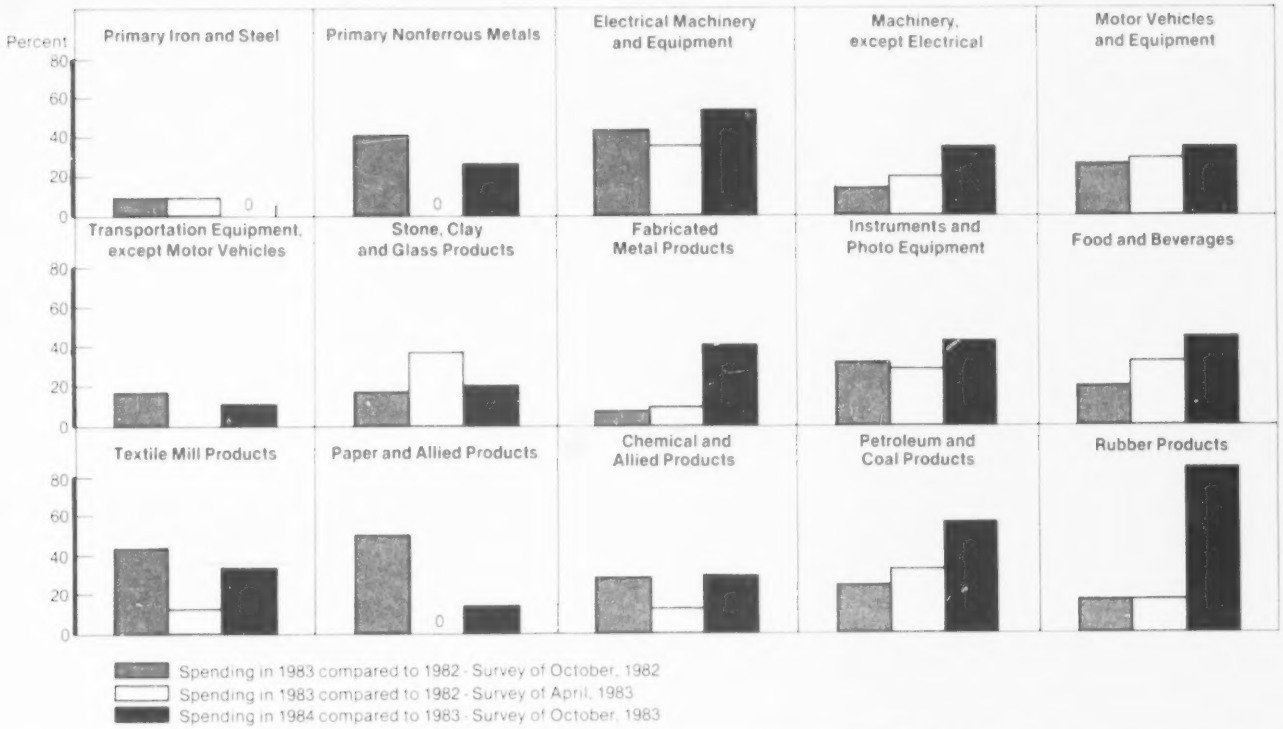
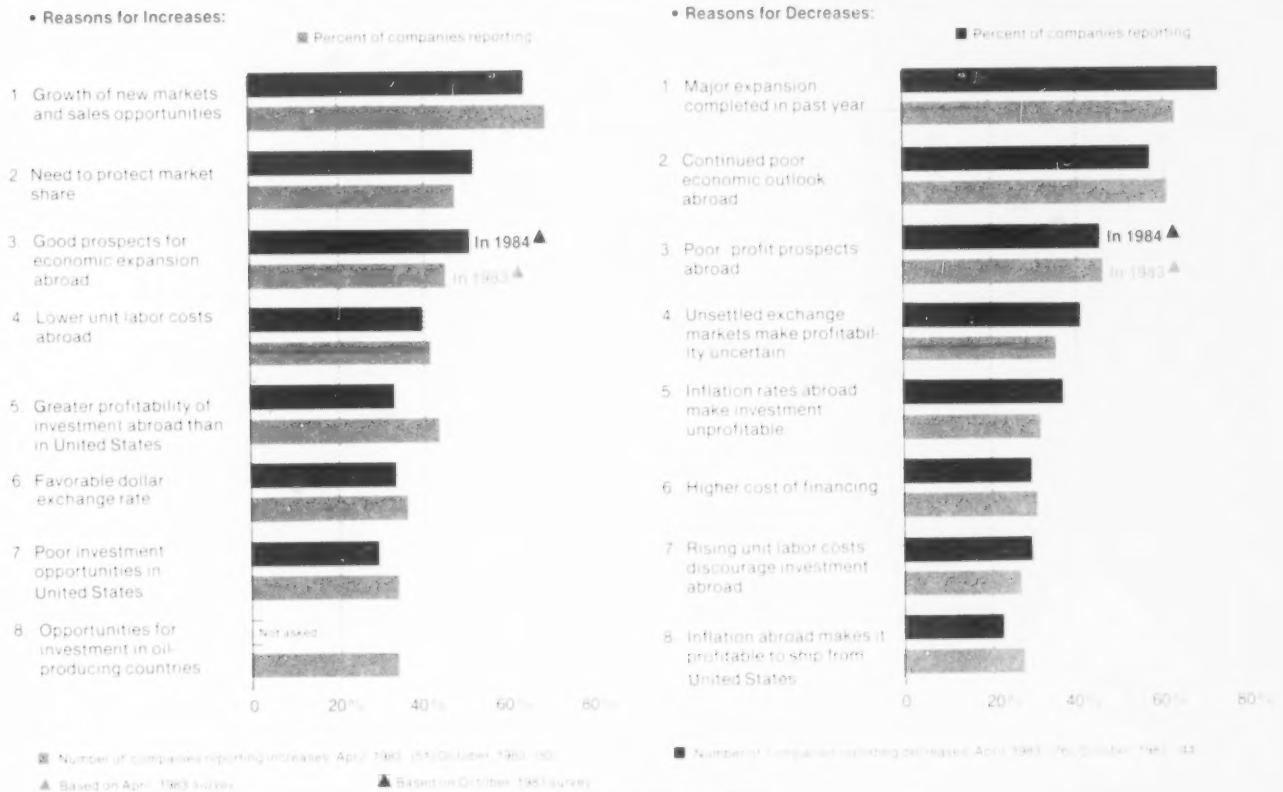
Spending Plans for Plant and Equipment Outside the United States by Industry

Percent of Companies Planning to Spend More



Reasons for Plant and Equipment Expenditures Outside the United States—All Manufacturing


• Reasons for Increases:
Percent of companies reporting
1. Growth of new markets and sales opportunities
2. Need to protect market share
3. Good prospects for economic expansion abroad
4. Lower unit labor costs abroad
5. Greater profitability of investment abroad than in United States
6. Favorable dollar exchange rate
7. Poor investment opportunities in United States
8. Opportunities for investment in oil-producing countries
In 1984 ▲
In 1983 ▲
Not asked
0
20%
40%
60%
80%
▲ Based on April 1983 survey
▲ Based on October 1983 survey
• Reasons for Decreases:
Percent of companies reporting
1. Major expansion completed in past year
2. Continued poor economic outlook abroad
3. Poor profit prospects abroad
4. Unsettled exchange markets make profitability uncertain
5. Inflation rates abroad make investment unprofitable
6. Higher cost of financing
7. Rising unit labor costs discourage investment abroad
8. Inflation abroad makes it profitable to ship from United States
In 1984 ▲
In 1983 ▲
0
20%
40%
60%
80%

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